

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2019

Note 1 - Summary of Significant Accounting Policies

Business Activity

The Shelbyville Municipal Water and Sewer Commission (a component unit of the City of Shelbyville, Kentucky) operates a combined water and sewer system which serves Shelbyville and the surrounding area. The original Commission established in 1955 was dissolved, reestablished, and restructured during 1993. During 2000, the Shelby County Fiscal Court conveyed all property and assets of Sanitation District No. 1 to the Commission and the Commission assumed the debts and obligations of Sanitation District No. 1 to form a newly constituted Commission. The new Commission consists of seven voting members. The Mayor of the City of Shelbyville, Kentucky shall be one voting member and serve as chairperson. Three other members are appointed by the Mayor, with approval of the City Council. One of the three members appointed by the Mayor shall be a member of the City Council. Three members are to be appointed by the Shelby County Judge Executive, with approval of the Fiscal Court. One of the three members appointed by the Judge Executive shall be a member of the Fiscal Court.

Financial Statement Presentation

The financial statements of the Commission are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Commission's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Basis of Accounting and Measurement Focus

The Commission is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The Commission is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The Commission is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For the purpose of the statement of cash flows, the Commission considers all money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. Trade accounts receivable are for services to customers. Allowances for uncollectible accounts receivable totaled \$30,000 and are based upon historical trends and the periodic aging of accounts receivable. Intergovernmental receivables are reported at the amount management expects to collect from outstanding balances and represent amounts due from local and state governments related to water and sewer projects. Management considers 100% of intergovernmental receivables to be fully collectable and thus there is no allowance at June 30, 2019. Other receivables are reported at the amount management expects to collect from outstanding balances and represent amounts due from local entities for reimbursement of costs on water and sewer projects. The allowance for uncollectable accounts totaled \$27,000 at June 30, 2019. The allowance was based on Management's analysis of the account aging.

Materials Inventory

The inventory is priced at cost on the first-in, first-out basis.

Investments

Investments consist of money market mutual funds reported at fair value. On the Statement of Net Position, the investments are presented as restricted cash and cash equivalents.

Capital Assets

All property and equipment is recorded at cost. Certain interest costs incurred on funds borrowed for construction is capitalized during the construction period per Governmental Accounting Standards Board ("GASB" Section 1400.

The Commission uses the straight-line method for property, plant and equipment based on the following estimated useful life by major class of depreciable assets:

<u>Class</u>	
Buildings and improvements	20-50 years
Machinery and equipment	5-10 years
Water and sewer systems	50 years
Infrastructure	20-50 years

Customer Deposits

Interest is accrued at the rate of 6% but not paid until service is discontinued.

Revenue

Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized.

New customer service connection fees are recorded as an addition to the equity of the water and sewer system. The cost of installation of the new service is recorded as an addition to water or sewer plant in service and is subject to depreciation.

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Note 1 - Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Debt Service Coverage

The debt service coverage is computed by dividing operating income before depreciation and interest on long-term debt by the maximum annual principle and interest coming due on all system debt outstanding in any year (including base rentals.) The lease purchase agreements require debt service coverage of 1.20.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted balances, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Commission’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Accumulated Vacation and Sick leave

Vacation is earned at rates varying between 1 to 15 days per year depending on the length of service. Employees must use vacation time earned during the year as there is no carryover. Sick leave accrues at the rate of 1 day per month and shall accumulate to a maximum of 126 days. Unused sick days are not payable upon retirement or termination. The only benefit available for unused sick leave is limited to retirement credit by the County Employees Retirement System (“CERS”) at a maximum of six months credit for 116-126 sick days accumulated at retirement. Any amount of accrued sick leave above 126 days will not be credited for retirement.

Retirement System

For purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources, deferred inflows of resources related to pension and OPEB expense, information about the fiduciary net position of CERS and addition to/deduction from CERS's fiduciary net position have been determined on the same basis as they were reported by CERS.

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Note 2 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Commission's deposits may not be returned. The Commission does have a deposit policy for custodial credit risk and follows the requirements of KRS 41.240(4). The Commission maintains numerous accounts at a depository bank. The Commission has pledged securities for those accounts with balances exceeding \$250,000.

The Commission's deposit and investment policies conform to state statutes. The Commission deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of pledged treasury certificates by the pledging financial institution. As of June 30, 2019, of the Commission's \$11,551,685 bank balances, \$11,301,685 was uninsured by FDIC, but 100% collateralized by pledged treasury certificates by the financial institution.

Note 3 – Components of Restricted Assets

This is a summary of the components of the restricted assets of the Commission:

- a. Debt service fund – This fund will be used for the payment of principal and interest on revenue bonds.
- b. Depreciation fund – This fund shall be available and shall be utilized to balance depreciation, to make unforeseen major repairs and replacements to the Water and Sewer System ("System") and to pay the costs of constructing additions, extensions, betterments and improvements to the System.
- c. System Development Charge – This fund shall be maintained by the Commission for improvements and ongoing construction for improvements to the System.
- d. Surplus fund – This fund shall be maintained by the Commission and used to the extent necessary for payment of obligations, payments of principal and interest for costs of improving or extending the System, or for any other lawful municipal purpose.
- e. Special bond account – This fund shall be maintained to account for the proceeds from 2017 revenue bond.

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Note 4 – Utility Plant and Capital Assets

The water system assets and sewer system assets are recorded at cost.

Following is a schedule of the utility plant:

Water Plant and Land	
Source of supply land	\$ 36,238
Power and pumping land	21,500
Source of supply structures	5,542,876
Pumping structures	417,840
Standpipes	5,227,801
Purification system	3,342,188
Dam and line	300,409
Miscellaneous structures	49,633
Pumping equipment	2,452,078
Distribution mains	6,294,824
Services and meters	3,515,673
Hydrants	372,441
Total water plant and land	<u>\$ 27,573,501</u>
Sewer Plant and Land	
Land	\$ 124,126
Structures	11,762,047
Distribution lines	14,024,229
Manholes	1,074,238
Disposal plant equipment	9,949,043
Office furniture and fixtures	11,691
Total sewer plant and land	<u>\$ 36,945,374</u>
Administrative and general	
Land improvements and building	\$ 690,922
Office furniture and fixtures	374,490
Transportation equipment	805,314
Shop equipment	416,958
Total administrative and general	<u>\$ 2,287,683</u>
Construction in progress	
Water plant	\$ 2,189,765
Sewer plant	213,176
Total construction in progress	<u>\$ 2,402,940</u>
Water rights	<u>\$ 165,652</u>